



STATE OF ILLINOIS  
**HEALTH FACILITIES AND SERVICES REVIEW BOARD**

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525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

<b>DOCKET NO:</b> H-2	<b>BOARD MEETING:</b> December 6-7, 2011	<b>PROJECT NO:</b> 11-066	<b>PROJECT COST:</b> Original: \$1,888,357
<b>FACILITY NAME:</b> Driftwood Dialysis		<b>CITY:</b> Freeport	
<b>TYPE OF PROJECT:</b> Substantive			<b>HSA: I</b>

**PROJECT DESCRIPTION:** DaVita, Inc., and Freeportbay Dialysis, LLC (the applicants) are proposing the establishment of a 10-station End Stage Renal Dialysis (ESRD) facility located 4,985 GSF of leased space in Freeport. The cost of the project is \$1,888,357.



## EXECUTIVE SUMMARY

### PROJECT DESCRIPTION

- DaVita, Inc., and Freeportbay Dialysis, LLC (the applicants) are proposing the establishment of a 10-station End Stage Renal Dialysis (ESRD) facility located 4,985 GSF of leased space in Freeport. The cost of the project is \$1,888,357. **The anticipated project completion date is June 30, 2013.**

### WHY THE PROJECT IS BEFORE THE STATE BOARD:

- To establish a health care facility as defined by Illinois Health Facilities Planning Act.

### PURPOSE OF THE PROJECT:

- To establish an ESRD facility and ESRD services in Freeport.
- There is only one other ESRD within a 30-minute radius.
- This one facility is currently operating in excess of the 100<sup>th</sup> percentile.

### NEED:

- To establish a dialysis service
  1. there must be a calculated need in the planning area;
  2. the proposed service must provide service to planning area residents;
  3. there must be a demand for the service in the planning area;
  4. the proposed service must improve access;
  5. the proposed service will not cause an unnecessary duplication of service or maldistribution of service; and,
  6. will not reduce the utilization of other area providers.
- HSA-I currently has a calculated need for 24 ESRD stations by the year 2013, the year of project completion.
- 100% of the patients will come from within the HSA I ESRD planning area.
- There are 75 pre ESRD patients that will need ESRD services in the next 1-2 years.
- Given the high average utilization of the 1 existing facility (108.3%) within 30 minutes it does not appear the proposed facility will cause an unnecessary duplication or a maldistribution of service.
- It does not appear that the proposed facility will impact other area providers as evidenced by the 75 pre ESRD patients identified by the applicants as needing dialysis care within the next 1-2 years.

### BACKGROUND/COMPLIANCE ISSUES

- Neither applicant has outstanding compliance issues with the State Board.



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### **PUBLIC HEARING/COMMENT**

- No public hearing was requested and no letters of opposition or support for this project were received by the State Board Staff.

### **FINANCIAL AND ECONOMIC FEASIBILITY**

- The project will be funded through internal sources (Cash and Securities/Fair Market Value of the Leases). Sufficient cash is available to fund the project.

### **CONCLUSIONS:**

- There is a calculated need for 24 stations in the HSA-01 ESRD service area.
- The only ESRD facility within a 30-minute drive radius (Freeport Dialysis), reports having an operational capacity of 108.3%.
- There appears to be a need for this project, and no negative impact/maldistribution of service will occur.
- There are no negative findings associated with this application.



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**STATE BOARD STAFF REPORT**

**Driftwood Dialysis**

**PROJECT #11-066**

Applicants	DaVita, Inc. Freeportbay Dialysis, LLC
Facility Name	Driftwood Dialysis
Location	Freeport
Application Received	August 22, 2011
Application Deemed Complete	August 22, 2011
Review Period Ended	October 21, 2011
Review Period Extended by the State Board Staff	No
Public Hearing Requested	No
Applicants' Deferred Project	No
Can Applicants Request Another Deferral?	Yes
Project Completion Date	June 30, 2013
Station Need/Excess in HSA	Need for 24 Stations
Station Need/Excess After Transaction	Need for 14 Stations
Opposition/Support Letters	None

**I. The Proposed Project**

The State Board is being asked to consider the establishment of a 10-station ESRD facility in Freeport. The proposed facility will be located in 4,985 GSF of leased space, and the cost of the project is \$1,888,357. **The anticipated project completion date is June 30, 2013.**

**II. Summary of Findings**

- A. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

**III. General Information**

The proposed facility will be located at 1808 South West Avenue, Freeport. The applicants are Freeportbay Dialysis, LLC, and DaVita, Inc. DaVita, Inc is the parent organization for all the entities and Frontier Real Estate Company owns the site. Freeportbay Dialysis, LLC d/b/a Driftwood Dialysis is the operating



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entity/licensee. The proposed facility will be located in HSA I. HSA I is comprised of the following counties: Boone, Carroll, DeKalb, Jo Davies, Lee, Stephenson, Whiteside, and Winnebago. The October 2011 update to the IDPH Inventory of Health Care Facilities ("Inventory") shows a computed need for 24 ESRD stations in HSA I.

There is no land acquisition cost for this project, as the proposed facility will be leased space with the interior being built out by the applicant. This is a substantive project subject to both a Part 1110 and Part 1120 review. Project obligation will occur after permit issuance. **The anticipated project completion date is June 30, 2013.**

**A public hearing was offered on this project; however, no hearing was requested. The State Board Staff received 11 letters in support of this project.**

#### IV. The Proposed Project - Details

The applicants propose to establish a 10 station ESRD facility housed in 4,985 Gross Square Feet ("GSF") of leased space. The proposed facility will be located in Stephenson County and the city of Freeport. The applicants note that it will build out the interior of the leased space, and the total estimated project cost is \$1,888,357.

#### V. Project Costs and Sources of Funds

The total estimated project cost is \$1,888,357. The proposed project is being funded with cash and securities totaling \$1,153,738, and leases with a Fair Market Value of \$734,619. Table One outlines the project's costs and uses of funds. The State Board Staff notes all costs are classified as being clinical.

TABLE ONE	
Project Uses and Sources of Funds	
Uses of Funds	Clinical
Modernization Contracts	\$536,662
Contingencies	\$53,000
A & E Fees	\$48,000
Consulting & Other Fees	\$84,500



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TABLE ONE	
Project Uses and Sources of Funds	
Uses of Funds	Clinical
Moveable Equipment	\$431,576
Fair Market Value of Leased Space/Equipment	\$734,619
<b>Total Uses of Funds</b>	<b>\$1,888,357</b>
Sources of Funds	Clinical
Cash and Securities	\$1,153,738
Leases (fair market value)	\$734,619
<b>Total Sources of Funds</b>	<b>\$1,888,357</b>

**VI. Cost/Space Requirements**

Table Two displays the project's cost/space requirements for the project. The clinical portion comprises approximately 100% of the cost and GSF.

TABLE TWO							
Driftwood Dialysis-Cost/Space Allocation							
Clinical Department	Cost	Existing GSF	Proposed GSF	New	Modernized	Vacated	As Is
ESRD	\$1,888,357	0	4,985	0	4,985	0	0
<b>Total</b>	<b>\$1,888,357</b>	<b>0</b>	<b>4,985</b>	<b>0</b>	<b>4,985</b>	<b>0</b>	<b>0</b>

**VII. Section 1110.230 - Project Purpose, Background and Alternatives**

**A. Criterion 1110.230(a) - Background of Applicant**

The Criterion states:

- "1) An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicant, HFPB shall consider whether adverse action has been taken against the applicant, or against any health care facility owned or operated by the



applicant, directly or indirectly, within three years preceding the filing of the application. A health care facility is considered "owned or operated" by every person or entity that owns, directly or indirectly, an ownership interest. If any person or entity owns any option to acquire stock, the stock shall be considered to be owned by such person or entity (refer to 77 Ill. Adm. Code 1100 and 1130 for definitions of terms such as "adverse action", "ownership interest" and "principal shareholder").

- 2) Examples of facilities owned or operated by an applicant include:
  - A) The applicant, Partnership ABC, owns 60% of the shares of Corporation XYZ, which manages the Good Care Nursing Home under a management agreement. The applicant, Partnership ABC, owns or operates Good Care Nursing Home.
  - B) The applicant, Healthy Hospital, a corporation, is a subsidiary of Universal Health, the parent corporation of Healthcenter Ambulatory Surgical Treatment Center (ASTC), its wholly-owned subsidiary. The applicant, Healthy Hospital, owns and operates Healthcenter ASTC.
  - C) Dr. Wellcare is the applicant. His wife is the director of a corporation that owns a hospital. The applicant, Dr. Wellcare, owns or operates the hospital.
  - D) Drs. Faith, Hope and Charity own 40%, 35% and 10%, respectively, of the shares of Healthfair, Inc., a corporation, that is the applicant. Dr. Charity owns 45% and Drs. Well and Care each own 25% of the shares of XYZ Nursing Home, Inc. The applicant, Healthfair, Inc., owns and operates XYZ Nursing Home, Inc.
- 3) The applicant shall submit the following information:
  - A) A listing of all health care facilities currently owned and/or operated by the applicant, including licensing, certification and accreditation identification numbers, as applicable;
  - B) A certified listing from the applicant of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application;
  - C) Authorization permitting HFPB and Illinois Department of Public Health (IDPH) access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies;



the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFPB.

- 4) If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed to update and/or clarify data.

The applicant provided a list of all health care facilities currently owned and/or operated by the applicant, including licensing, certification and accreditation identification numbers, a certified statement from the applicant that no adverse action has been taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application, and authorization permitting HFPB and Illinois Department of Public Health (IDPH) access to any documents necessary to verify the information submitted. The applicants appear fit, willing and able and have the qualifications, background and character to adequately provide a proper standard of healthcare service for the community.

**B. Safety Net Impact Statement/Charity Care**

*DaVita, Inc. and its affiliates are safety net providers of dialysis services to residents of the State of Illinois, and note the proposed project will not impact the ability of other health care providers or health care providers to cross-subsidize safety net services. The proposed facility will be one of two ESRD facilities operating within a 30-minute drive radius, and the other facility reports an operational capacity in excess of the 100<sup>th</sup> percentile. Based on these findings, it is evident that there will be no negative impact on safety net services in the service area.*





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The table below shows the amount of charity care provided for the 3 fiscal years prior to submission of the application for DaVita facilities in Illinois and the amount of care provided to Medicaid patients for the three fiscal years prior to submission of the application. This includes in-center hemodialysis, peritoneal dialysis, home hemodialysis & sub-acute hemodialysis.

TABLE THREE			
SAFETY NET INFORMATION			
DaVita facilities in Illinois			
CHARITY CARE			
	2008	2009	2010
Charity (# of patients)	10	19	21
Charity Care Cost	\$321,510	\$597,263	\$957,867
Amount of Charity Care (Charges)	\$297,508	\$575,803	\$957,867
MEDICAID			
	2008	2009	2010
Medicaid (Patients)	214	220	268
Medicaid (Revenue)	\$9,073,985	\$9,212,781	\$10,893,264

**C. Criterion 1110.230(b) - Purpose of the Project**

The Criterion states:

The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

- 1) The applicant shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project. Examples of such information include:
  - A) The area's demographics or characteristics (e.g., rapid area growth rate, increased aging population, higher or lower fertility rates) that may affect the need for services in the



- future;
- B) The population's morbidity or mortality rates;
  - C) The incidence of various diseases in the area;
  - D) The population's financial ability to access health care (e.g., financial hardship, increased number of charity care patients, changes in the area population's insurance or managed care status);
  - E) The physical accessibility to necessary health care (e.g., new highways, other changes in roadways, changes in bus/train routes or changes in housing developments).
- 2) The applicant shall cite the source of the information (e.g., local health department Illinois Project for Local Assessment of Need (IPLAN) documents, Public Health Futures, local mental health plans, or other health assessment studies from governmental or academic and/or other independent sources).
  - 3) The applicant shall detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being. Further, the applicant shall provide goals with quantified and measurable objectives with specific time frames that relate to achieving the stated goals.
  - 4) For projects involving modernization, the applicant shall describe the conditions being upgraded. For facility projects, the applicant shall include statements of age and condition and any regulatory citations. For equipment being replaced, the applicant shall also include repair and maintenance records.

The applicants propose to establish a 10-station ESRD facility in 4,985 gross square feet of modernized, leased space. The applicants state that the purpose of the proposed project is to provide ESRD services to the residents of Freeport and the surrounding area, a service area that currently has one existing 10-station ESRD facility (Freeport Dialysis) which is operating in excess of the 100<sup>th</sup> percentile (108.3%). The applicants note Freeport Dialysis recently initiated a fourth shift to serve its patients, which has resulted in several infeasibilities on the patient population. In addition, the applicants have identified 75 pre-ESRD patients expected to be referred to the proposed facility after project completion.

Table Four identifies the one facility within a 30-minute time frame and its



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utilization as supplied by the applicants.

TABLE FOUR					
Facilities within 30 minutes of Driftwood Dialysis, Freeport <sup>(1)</sup>					
Facility	City	Adjusted Minutes (1)	Stations	September 2011 Utilization	Met 80% Standard
Freeport Dialysis (DaVita)	Freeport	7	10	108.3%	Yes
1. Mileage calculated using MapQuest. Time calculated per 77 IAC 1100.510 (d)					

The applicants cited quantifiable goals as being the ability to improve access while monitoring patient demand, and that the facility will achieve quality outcomes as demonstrated by achieving 85% of patients having a URR greater than or equal to 65%, and 85% of patients having a Kt/V greater than or equal to 1.2.

**D. Criterion 1110.230(c) - Alternatives to the Proposed Project**

**The Criterion states:**

**“The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.**

- 1) Alternative options shall be addressed. Examples of alternative options include:**
  - A) Proposing a project of greater or lesser scope and cost;**
  - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;**
  - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and**
  - D) Other considerations.**
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of cost, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long**



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- term. This may vary by project or situation.**
- 3) **The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available."**

The applicants propose to establish a 10-station ESRD facility. The applicants considered the following alternatives:

**1. Do Nothing**

The applicants note the option of doing nothing was unreasonable, based on the current utilization rate at the only other ESRD facility in a 30-minute drive radius, and the fact that utilization at the existing facility has increased by 4% annually. The only plausible option under this alternative was to operate a fourth shift. This option was pursued and has proven to be infeasible for the growing patient population in Freeport. There were no costs identified with this alternative.

**2. Utilize Existing Facilities**

Similar to the alternative of doing nothing, the utilization of existing facilities would do nothing to address the overutilization of the only other ESRD facility in the service area. The applicants note the next nearest facility, Dixon Dialysis (40 minutes), has some excess capacity, but is an infeasible option based on distance and its inability to fully accommodate the excess patient population from Freeport Dialysis. The applicants identified no costs with this alternative.

**3. Expand the Existing Facility**

The applicants considered the expansion of the existing ESRD facility, but realized expansion of the existing facility was impossible. No project costs were identified with this alternative.

**4. Project as Proposed (Establish a New Facility)**



The applicants chose this alternative, based on the current utilization at its existing facility, and the projected number of patients expected to require dialysis services in the next 12-18 months. The option of establishing a second ESRD facility will ensure patient access to dialysis services, and allow for future expansion, if needed. Cost of the proposed alternative: \$1,888,357.

**VI. Section 1110.234 - Project Scope and Size, Utilization and Unfinished/Shell Space – Review Criteria**

**A) Size of Project**

The Criterion states:

**“The applicant shall document that the amount of physical space proposed for the project is necessary and not excessive. The proposed gross square footage (GSF) cannot exceed the GSF standards of Appendix B, unless the additional GSF can be justified by documenting one of the following:**

- 1) Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;**
- 2) The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;**
- 3) The project involves the conversion of existing bed space that results in excess square footage.”**

The applicants propose to establish a 10 station ESRD facility in 4,985 GSF of leased space. The State board standard is 360-520 GSF per station. The applicants note the project is allocating 498.5 GSF per station, which is within the State standard. The proposed project meets the spatial standards established by the State Board, and a positive finding can be made.

<p style="text-align: center;">TABLE FIVE SIZE OF PROJECT 11-066 Driftwood Dialysis, Freeport</p>
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Department /Service	Proposed BGSF/DGSF	State Standard	Difference	Met Standard?
ESRD Facility	4,985 GSF (10 Stations)	360-520 DGSF (498.5 GSF/Station)	21.5 DGSF Under per station	Yes

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SIZE OF PROJECT CRITERION (77 IAC 1110.234(a)).**

**B) Criterion 1110.234 (b) - Project Services Utilization**

The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B. The number of years projected shall not exceed the number of historical years documented. If the applicant does not meet the utilization standards in Appendix B, or if service areas do not have utilization standards in 77 Ill. Adm. Code 1100, the applicant shall justify its own utilization standard by providing published data or studies, as applicable and available from a recognized source, that minimally include the following:

The applicants note Dr. John Maynard, M.D. has identified 75 pre-ESRD patients who reside in the service area who are expected to be referred to the proposed facility, once completed. This, combined with the expected migration of excess patients from Freeport Dialysis, supports the fact that by the second year after project completion (2015), they will be above the State Board's target occupancy of 80% (Application, P. 121).

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED SERVICES UTILIZATION CRITERION (77 IAC 1110.234(b)).**

**IX. Section 1110.1430 - In-Center Hemodialysis Projects - Review Criteria**

The criterion for establishing an ESRD facility reads as follows:

- 1) 77 Ill. Adm. Code 1100 (formula calculation)



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- A) The number of stations to be established for in-center hemodialysis is in conformance with the projected station deficit specified in 77 Ill. Adm. Code 1100, as reflected in the latest updates to the Inventory.
- B) The number of stations proposed shall not exceed the number of the projected deficit, to meet the health care needs of the population served, in compliance with the utilization standard specified in 77 Ill. Adm. Code 1100.

2) Service to Planning Area Residents

- A) Applicants proposing to establish or add stations shall document that the primary purpose of the project will be to provide necessary health care to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.
- B) Applicants proposing to add stations to an existing in-center hemodialysis service shall provide patient origin information for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the area. For all other projects, applicants shall document that at least 50% of the projected patient volume will be from residents of the area.
- C) Applicants proposing to expand an existing in-center hemodialysis service shall submit patient origin information by zip code, based upon the patient's legal residence (other than a health care facility).

3) Service Demand - Establishment of In-Center Hemodialysis Service

The number of stations proposed to establish a new in-center hemodialysis service is necessary to accommodate the service demand experienced annually by the existing applicant facility over the latest two-year period, as





evidenced by historical and projected referrals, or, if the applicant proposes to establish a new facility, the applicant shall submit projected referrals. The applicant shall document subsection (b) (3) (A) and either subsection (b) (3) (B) or (C).

**A) Historical Referrals**

- i) If the applicant is an existing facility, the applicant shall document the number of referrals to other facilities, for each proposed category of service, for each of the latest two years.
- ii) Documentation of the referrals shall include: patient origin by zip code; name and specialty of referring physician; name and location of the recipient facility.

**B) Projected Referrals**

The applicant shall provide physician referral letters that attest to:

- i) The physician's total number of patients (by facility and zip code of residence) who have received care at existing facilities located in the area, as reported to The Renal Network at the end of the year for the most recent three years and the end of the most recent quarter;
- ii) The number of new patients (by facility and zip code of residence) located in the area, as reported to The Renal Network, that the physician referred for in-center hemodialysis for the most recent year;
- iii) An estimated number of patients (transfers from existing facilities and pre-ESRD, as well as respective zip codes of residence) that the physician will refer annually to the applicant's facility within a 24-month period after project completion, based upon the physician's practice experience. The





anticipated number of referrals cannot exceed the physician's documented historical caseload;

- iv) An estimated number of existing patients who are not expected to continue requiring in-center hemodialysis services due to a change in health status (e.g., the patients received kidney transplants or expired);
- v) The physician's notarized signature, the typed or printed name of the physician, the physician's office address and the physician's specialty;
- VI) Verification by the physician that the patient referrals have not been used to support another pending or approved CON application for the subject services; and
- VI i) Each referral letter shall contain a statement attesting that the information submitted is true and correct, to the best of the physician's belief.

**5) Service Accessibility**

The number of stations being established or added for the subject category of service is necessary to improve access for planning area residents. The applicant shall document the following:

**A) Service Restrictions**

The applicant shall document that at least one of the following factors exists in the planning area:

- i) The absence of the proposed service within the planning area;
- ii) Access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care or charity care;



- iii) Restrictive admission policies of existing providers;
- iv) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
- v) For purposes of this subsection (b) (5) only, all services within the 30-minute normal travel time meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.

b) Planning Area Need Review Criterion

The applicant shall document that the number of stations to be established or added is necessary to serve the planning area's population, based on the following:

1) 77 Ill. Adm. Code 1100 (formula calculation)

According to the October 2011 update to the IDPH Inventory of Health Care Facilities ("Inventory"), HSA-01 shows a computed need for 24 ESRD stations. This project is requesting to establish a 10-station ESRD facility in 4,985 GSF of leased space in Freeport.

2) Service to Planning Area Residents

The primary purpose of this project is to provide in-center ESRD services to the residents of Freeport and the surrounding service area. The applicants note there is only one existing ESRD facility within this service area, its current operational capacity of 108.3% (See Table Four), and 75 pre-ESRD patients in the service area expected to be in need of dialysis services in the next 12-18 months. (Application, p. 174).



**3) Service Restrictions**

The applicants identified a service area surrounding Freeport that currently has one 10-station ESRD facility to serve its growing patient population. This existing facility is over-utilized (108.3% operational capacity). This, combined with the projected 4% growth in ESRD patients annually, is creating a restriction to service based on accessibility.

**4) Service Accessibility**

The applicants state the proposed facility will be located in Freeport (HSA-01), which reports a current need for 24 additional ESRD stations. The only existing facility within a 30-minute drive radius is operating at 108.3% capacity, and the anticipated population growth for ESRD patients in this service area is projected at 4% annually. These data alone support the enhanced accessibility to ESRD services expected to be realized from the proposed 10-station ESRD facility.

**Conclusion**

HSA-01 has a current need for 24 additional ESRD stations, and the Freeport area is currently served by one 10-station ESRD facility that has a reported history of over-utilization. While the next nearest facility (Rockford Memorial Hospital) is underutilized, the distance alone (40 minutes) creates hardship and accessibility issues for the population in the defined service area. The applicants have identified 75 pre-ESRD patients expected to be in need of dialysis services in the coming 12-18 months (service need), and a projected 4% growth annually, in the ESRD patient population.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PLANNING AREA NEED CRITERION (77 IAC 1110.1430(b)).**

**c) Unnecessary Duplication / Maldistribution Review Criterion**



- 1) The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall provide the following information:
  - A) A list of all zip code areas that is located, in total or in part, within 30 minutes normal travel time of the project's site;
  - B) The total population of the identified zip code areas (based upon the most recent population numbers available for the State of Illinois population); and
  - C) The names and locations of all existing or approved health care facilities located within 30 minutes normal travel time from the project site that provide the categories of station service that are proposed by the project.
- 2) The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the identified area (within the planning area) has an excess supply of facilities, stations and services characterized by such factors as, but not limited to:
  - A) A ratio of stations to population that exceeds one and one-half times the State average;
  - B) Historical utilization (for the latest 12-month period prior to submission of the application) for existing facilities and services that is below the utilization standard established pursuant to 77 Ill. Adm. Code 1100; or
  - C) Insufficient population to provide the volume or caseload necessary to utilize the services proposed by the project at or above utilization standards.
- 3) The applicant shall document that, within 24 months after project completion, the proposed project:
  - A) Will not lower the utilization of other area providers below the occupancy standards specified in 77 Ill. Adm. Code 1100; and



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- B) Will not lower, to a further extent, the utilization of other area hospitals that are currently (during the latest 12-month period) operating below the occupancy standards.**

There is one existing facility within 30 minutes of the proposed facility, (Freeport Dialysis) operating in excess of the 100<sup>th</sup> percentile. This, combined with the 4% projected annual growth in the ESRD population in the service area, and an identified station-to-population ratio of 1 in every 5,298 residents in the defined service area, serves as evidence that a duplication of service will not result from the establishment of this facility.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE UNNECESSARY DUPLICATION/MALDISTRIBUTION CRITERION (77 IAC 1110.1430 (c) (1) (2)).**

**C) Staffing - Availability**

**The Criterion states:**

**"The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and JCAHO staffing requirements can be met. In addition, the applicant shall document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.**

**1) Qualifications**

- A) Medical Director - Medical direction of the facility shall be vested in a physician who has completed a board-approved training program in nephrology and has at least 12 months experience providing care to patients receiving dialysis.**
- B) Registered Nurse - The nurse responsible for nursing services in the unit shall be a registered nurse (RN) who meets the practice requirements of the State of Illinois and has at least 12 months experience in providing nursing care to patients on maintenance dialysis.**
- C) Dialysis Technician - This individual shall meet all**



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applicable State of Illinois requirements (see 210 ILCS 62, the End Stage Renal Disease Facility Act). In addition, the applicant shall document its requirements for training and continuing education.

- D) Dietitian – This individual shall be a registered dietitian with the Commission on Dietetic Registration, meet the practice requirements of the State of Illinois (see the Dietetic and Nutrition Services Practice Act [225 ILCS 30]) and have a minimum of one year of professional work experience in clinical nutrition as a registered dietitian.
- E) Social Worker – The individual responsible for social services shall have a Master's of Social Work and meet the State of Illinois requirements (see 225 ILCS 20, the Clinical Social Work and Social Work Practice Act)."

The applicants are proposing to establish a 10-station ESRD facility and have provided the necessary information as required by this criterion on page 127 of the application for permit.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE STAFFING CRITERION (77 IAC 1110.1430 (e) (1)).**

**D) Support Services**

The Criteria states:

**"An applicant proposing to establish an in-center hemodialysis category of service must submit a certification from an authorized representative that attests to each of the following:**

- 1) Participation in a dialysis data system;
- 2) Availability of support services consisting of clinical laboratory service, blood bank, nutrition, rehabilitation, psychiatric and social services; and
- 3) Provision of training for self-care dialysis, self-care instruction, home and home-assisted dialysis, and home training provided at the proposed facility or the existence of a signed, written agreement for provision of these services with another facility."

The applicants are proposing to establish a 10-station ESRD facility and



have provided the necessary documentation as required by this criterion on page 141 of the application for permit. The applicants note Freeport Memorial Hospital, Freeport, will provide Blood bank, Rehabilitation, and Psychiatric services.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH THE SUPPORT SERVICES CRITERION (77 IAC 1110.1430 (f)).**

**g) Minimum Number of Stations**

**The minimum number of in-center hemodialysis stations for an End Stage Renal Disease (ESRD) facility is:**

- 1) Four dialysis stations for facilities outside an MSA;**
- 2) Eight dialysis stations for a facility within an MSA.**

The proposed 10 station ESRD facility will not be located in an MSA. Therefore this criterion is inapplicable.

**THE STATE BOARD STAFF FINDS THE MINIMUM NUMBER OF STATIONS CRITERION IS INAPPLICABLE TO THE PROPOSED PROJECT (77 IAC 1110.1430 (g)).**

**h) Continuity of Care**

**An applicant proposing to establish an in-center hemodialysis category of service shall document that a signed, written affiliation agreement or arrangement is in effect for the provision of inpatient care and other hospital services. Documentation shall consist of copies of all such agreements.**

The applicants have provided the required affiliation agreement on pages 142-149 of the application for permit. The transfer agreement is with Freeport Memorial Hospital, Freeport. The applicants have met the requirements of this criterion.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CONTINUITY OF CARE CRITERION (77 IAC 1110.1430 (h)).**





j) **Assurances**

The Criterion states:

"The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that:

- 1) By the second year of operation after the project completion, the applicant will achieve and maintain the utilization standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal; and
- 2) An applicant proposing to expand or relocate in-center hemodialysis stations will achieve and maintain compliance with the following adequacy of hemodialysis outcome measures for the latest 12-month period for which data are available:  
≥ 85% of hemodialysis patient population achieves area reduction ratio (URR) ≥ 65% and ≥ 85% of hemodialysis patient population achieves Kt/V Daugirdas .1.2."

The applicants provided the required certification information on page 150 of the application for permit as required of the criterion. The applicants note by the second year of operation Driftwood Dialysis will have achieved the following adequacy outcomes:

- 85% of patients had a URR ≥ 65%
- 85% of patients had a Kt/V ≥ 1.2

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES CRITERION (77 IAC 1110.1430 (j)).**

X. **1120.120 - Availability of Funds**

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.





The applicants are funding the project with cash and securities totaling \$1,153,738 the FMV of the leases totaling \$734,619. A review of the applicants' financial statements indicates that sufficient cash is available to fund the project.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120 (a)).**

**XI. 1120.130 - Financial Feasibility**

**A. Criterion 1120.130 - Financial Viability**

**Financial Viability Waiver**

The applicant is NOT required to submit financial viability ratios if:

- 1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or

**HFSRB NOTE:** Documentation of internal resources availability shall be available as of the date the application is deemed complete.

- 2) the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA), or its equivalent; or

**HFSRB NOTE:** MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.

- 3) the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.

The applicants have qualified for the financial waiver because the project



is being funded with internal sources including capital expended through a lease. The applicants are funding the project with cash and securities of \$1,153,738, and the FMV of the lease of \$734,619. A review of the applicants' audited financial statements indicates that sufficient cash is available to fund the project.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL FEASIBILITY CRITERION (77 IAC 1120.130 (a)).**

**XII. Section 1120.140 - Economic Feasibility**

**A. Criterion 1120.140(a) - Reasonableness of Financing Arrangements**

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or

B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

The applicants are funding the project with cash and securities of \$1,153,738, and the FMV of the lease of \$734,619. The applicants have provided documentation of internal funding sources for the proposed project, and this criterion is inapplicable.

**THE STATE BOARD STAFF FINDS THE REASONABLENESS OF**



**FINANCING ARRANGEMENTS CRITERION IS INAPPLICABLE TO THE PROPOSED PROJECT (77 IAC 1120.140(a)).**

**B. Criterion 1120.140(b) - Terms of Debt Financing**

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

The applicants are funding the project with cash and securities of \$1,153,738, the FMV of the lease of \$734,619. The applicants have provided documentation of internal funding sources for the proposed project, and this criterion is inapplicable

**THE STATE BOARD STAFF FINDS THE TERMS OF DEBT FINANCING CRITERION IS INAPPLICABLE TO THE PROPOSED PROJECT (77 IAC 1120.140(b)).**

**C. Criterion 1120.140(c) - Reasonableness of Project Cost**

The applicant shall document that the estimated project costs are reasonable and shall document compliance with the State Board's standards as detailed in 77 IAC 1120.

**Modernization Contracts and Contingencies** - These costs total \$589,662 or \$118.28 per gross square feet. ( $\$589,662 / 4,985 \text{ GSF} = \$118.28 / \text{GSF}$ ) This



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appears reasonable when compared to the State Board standard of \$149.35/GSF.

**Contingencies** - These costs total \$53,000. These costs are 9.8% of modernization costs. This appears reasonable when compared to the State Board standard of 10% of modernization costs.

**Architect and Engineering Fees** - These costs total \$48,000 or 8.1% of modernization and contingency costs. This appears reasonable when compared to the State Board standard of 7.5-11.26 % of modernization and contingency costs.

**Moveable Equipment** - These costs total \$431,576 or \$43,157.60 per station. This appears reasonable when compared to the State Board standard of \$43,649.

**Fair Market Value of Leased Space** - These costs are \$1,684,425. The State Board does not have a standard for these costs.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COST CRITERION (77 IAC 1120.140 (c)).**

**D) Criterion 1120.140 (d) - Projected Operating Costs**

**The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.**

The applicants anticipate the direct operating costs per treatment to be \$110.74. The State Board does not have a standard for these costs.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECT DIRECT OPERATING COSTS CRITERION (77 IAC 1120.140 (d)).**



**E) Criterion 1120.140 (e) - Total Effect of the Project on Capital Costs**

**The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.**

The applicants anticipate the total effect of the Project on Capital Costs per treatment to be \$12.82. The State Board does not have a standard for these costs.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1120.140 (e)).**

# 11-066 Driftwood Dialysis - Freeport

